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Annual Service Plan Report

2004/05

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2004 was an exceptional year in BC's forest industry with many companies enjoying strong sales. BC wood product sales value grew by 23% to $9.7 billion while volumes were up over 11% to 34.8 million cubic metres over 2003 figures.

Forestry Innovation Investment Ltd. supported the forest industry's success through programs and activities that produced very strong results in 2004/05.

The construction and official opening of the Dream Home Canada Demonstration Centre[1] in Shanghai, China, the successful showcasing of BC forest products and producers through an award-winning tradeshow display and the independent validation of BC's world-leading forest management regulations by a Yale professor all supported BC's strong year of industry success despite growing complexity and pressure in international wood-buying markets.

The following highlights capture some of the company's achievements during the past year.

Dream Home Canada

The 888 square metre (9,558 square foot) Dream Home Canada Demonstration Centre was developed in partnership with BC forest companies to target the fast-growing Chinese housing market. The January 2005 opening of the centre marked an exciting new opportunity in this rapidly developing region of China.

Trade-show success

Targeted marketing activities were undertaken through trade-shows in China, Japan and the United States. The BC Products Showcase, a 1,000 square foot model home featuring a large selection of BC wood products and materials was used.

Smart marketing

For enduring success, we must have high-quality forest products and good market intelligence.

In 2004/05, Forestry Innovation Investment's International Marketing and Product Development Program provided $9.1 million in funding to 14 recipients to expand our market knowledge, product placement in key markets and product innovation.

Through innovative projects and strong partnerships with the forest industry and Government of Canada as well as targeted activities that provide critical intelligence about our key markets, BC producers will be able to position themselves in the most profitable locations with the most desirable products.

Accountability

The 2004/05 Forestry Innovation Investment Ltd. annual report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of Forestry Innovation Investment Ltd. for the 12 months ended March 31, 2005. All significant decisions, events and identified risks as of March 31, 2005 have been considered in preparing the report.

The information presented is prepared in accordance with the BC Reporting Principles and represents a comprehensive picture of our actual performance in relation to our service plan.

Doug Konkin
Chair
Forestry Innovation Investment Ltd.'s Board of Directors

[1] Dream Home Canada is the name used for the demonstration centre in China while in Canada it is known as Dream Home China.

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British Columbia's forest industry is enjoying a period of strong performance and Forestry Innovation Investment is pleased to be a committed partner in the province's role as a global leader in forest product sales and product innovation.

FII enjoyed a very successful year as company efforts helped to ease trade barriers in some locations, boost sales for key products and identify new opportunities offering promising potential.

The work must continue. Wood is not readily considered a housing material in countries like China, Vietnam and Korea. FII and BC forest industry partners are working diligently to change that, with increasing success.

The global environment for forest product sales continues to become more complex with international competitors expanding in size and sophistication. Increasingly, countries and wood-producing companies are investing more and more resources in market-development activities and new products, placing greater pressure on BC's forest companies and FII to be in the marketplace showcasing BC's forest products.

In New Zealand for example, the government recently announced an $18 million investment over five years to enhance the country's forest sector and international marketing efforts. The German government is also aiding producers in that country to market wood products to the United States and China.

Mills in eastern Europe and Russia are adding dry kilns to augment their products and increase market shares while other lumber suppliers in Europe and the Southern hemisphere are coming online with engineered lumber and lower-cost products.

BC wood product producers must be more informed and targeted in their sales approaches than ever before. The strong market shares BC forest products have traditionally enjoyed in Japan and the United States as well as elsewhere in the world cannot be taken for granted. Increasingly, buyers say they purchase on the basis of price so we must be consistently competitive, unfailing in our quality and reliable with our supply.

FII will continue to work with its partners to conduct client, market and customer opinion research and ensure our program activities support BC's forest industry in the strongest possible way.

To that end, in 2005/06, FII will:

- actively pursue fresh opportunities in existing markets and forge new openings in emerging forest-product markets;
- support the development of new and innovative forest products;
- continue to be a marquee presence at international trade shows for buyers, builders, designers and consumers in the United States, Japan and China; and,
- work with forest industry companies and associations to ensure BC forest products and practices are known to be among the very best worldwide.

BC exports more forest products than any other country. Fully 85% of the province's wood products go to foreign markets so it is crucial that BC continue to make the investments and be in the marketplace to eliminate barriers and make wood understood and accepted as a building material.

Forestry Innovation Investment Ltd. is a strong and proud partner in this effort and our staff look forward to another successful year for BC's forest industry.

K. Baker

Ken Baker
President and CEO

British Columbia's forest industry is a $14 billion industry that touches every corner of the province and directly employs an estimated 90,000 residents within it. Including secondary employment, BC's forest sector accounts for approximately one job in every five in BC.

Forest products, including solid wood, panels and value-added wood products, are key to the economic well-being of the province.

The prosperity of the BC forest industry is dependent on continuing demand for our products in world markets. Approximately 85% of our forest product sales are targeted to non-Canadian customers - those in the United States, Europe, Japan and China. The prosperity of our forest sector, and our province, depends on maintaining and building demand for our products in these world markets, markets that are becoming increasingly complex and competitive.

To that end, Forestry Innovation Investment Ltd. was incorporated on March 31, 2003 under the *Company Act of British Columbia* to promote BC's world-leading forest products and forest management to the global marketplace. (For a year prior to incorporation, the organization was administered by Forintek Canada Corp.)

For the 2004/05 operating year, FII was guided by the following vision and mission:

FII's Vision:

International forest product and forest practices marketing that supports maintained access to and enhanced opportunities within international markets, and enables a BC forest sector that is leading edge, globally competitive, and able to provide a sustainable flow of economic benefits to communities and the Province of British Columbia.

FII's Mission:

To be an innovative and highly efficient model for the delivery of forest sector programming, in collaboration with government and industry, that contributes to the global competitiveness and enhances the reputation of the forest industry and BC through strategic investments in international marketing and product development.

Core Business Areas and Services

FII programs and services are aligned to its four core business areas – international marketing, product development, market communications and corporate services with several activities conducted across all program areas.

All of the programs are funded through an annual appropriation of the Legislature which is allocated to the following programs and activities to achieve the goals presented in the service plan.

International marketing increases demand for BC wood as a preferred choice of international buyers and their customers by:

- identifying and removing market-access barriers and improving customer and consumer understanding and support for BC wood products in existing and emerging markets;
- leading market research to identify opportunities and provide a sound foundation for the ongoing development of market strategies and to support FII and industry investment decisions;
- producing and distributing high-quality marketing materials, and providing customers with access to product information in a variety of languages; and,
- coordinating tradeshow strategies and the delivery of in-market programs.

Product development supports forest industry associations and research agencies to develop and implement new technologies, processes, products and systems that enhance the competitiveness of the sector through continued innovation and improvements. This includes technology transfer, which helps to introduce new technologies to the workplace.

"The United States and Japanese markets represent 95% of all BC's commodity wood exports (e.g. lumber, plywood, oriented strand board [OSB] etc.)"

Market communications provides international buyers and others with neutral, credible facts so they can assure customers that BC wood products come from well-managed forests. Delivered through the BC Market Outreach Network, the program embraces five principal services:

- its market research gathers information about customers' environmental concerns and current academic research, which is used to support activities;
- its information materials, including fact sheets and an up-to-date website www.bcforestinformation.com, respond to market issues and changes in forest policy;
- its strong presence at major international trade shows ensures that customers and potential customers have access to information on BC's forest practices and environmental performance, which can have a considerable influence on purchasing decisions;
- its ongoing market monitoring identifies emerging issues so it can maintain a leading, proactive stance in market communications and prepare relevant intervention material or in-market activities as necessary; and,
- its comprehensive forestry tours for customers, media and key influencers from key markets provide these audiences with an on-the-ground perspective of BC's world-leading sustainable forest management.

Corporate Services includes responsibility for the financial management and control of the corporation, information systems, human resources and performance management. Corporate services focus on internal management and employees, as well as on serving the board of directors, government and partners by ensuring a high level of performance, accountability and adherence to company policies.

Investment Aims

FII works closely with BC forest companies, industry associations, the provincial and federal governments, embassies and consulates, international trade associations, resource communities and other key stakeholders. The company's services and products increase demand for BC wood products and the value of BC's forest asset by:

- diversifying and strengthening the market base for BC forest products;
- raising the profile of BC as a world leader in sustainable forest management and a producer of high-quality wood products;
- providing international and domestic customers with credible information about BC wood products, forest practices and environmental performance to help them make their purchasing decisions;
- improving market access for BC wood products;
- assisting industry associations and other partners so they can act strategically, efficiently, and in a coordinated fashion to address broader issues; and
- sparking innovation to ensure BC's forest industry is always identifying and developing higher levels of efficiency and product quality.

Service delivery

FII is guided by comprehensive market strategies in a number of key markets and its activities are designed to improve co-ordination among wood-product associations seeking international opportunities for their members. Through an annual call-for-proposals process, FII invites association partners to identify project activities which are then evaluated against FII's strategies and criteria. If the project proposals meet the corporation's goals and objectives and are within the company's financial resources, annual funding agreements are established, with recipients managing the delivery of the project activities.

In some cases, FII leads specific initiatives if it will result in more effective and coordinated delivery or enhanced services. Examples include the BC Market Outreach

"Brazil has emerged as BC's major competitor for structural plywood in the European and US markets."

Network and the Dream Home Canada project, which provides a strong base for future market development in China. FII also commissions market research directly and develops and maintains broadly focused multilingual marketing tools such as DVDs, publications, and websites representing the broader BC industry.

Minister responsible

The Minister of Forests is the Minister responsible for Forestry Innovation Investment Ltd.

Corporate locations

FII's corporate office is located at 1200 - 1130 West Pender Street in downtown Vancouver, British Columbia while the company's subsidiary office is located in Shanghai, China in the Dream Home Canada Demonstration Centre.

Dream Home Canada subsidiary

The laws of the People's Republic of China required FII to establish a wholly owned subsidiary in order to operate in China. In March 2004, FII set up FII Consulting (Shanghai) Co., Ltd., (FII Shanghai), a company registered in China for this purpose. As a wholly foreign owned enterprise, FII Shanghai is able to use facilities constructed in Shanghai to provide consulting services to FII and others, allowing FII to pursue its marketing and promotional activities in the Chinese market.

FII Shanghai has led the development of Dream Home Canada in Shanghai, China. The project is a vehicle used to showcase BC wood products and forge inroads into the booming Chinese housing market through FII's international marketing program. The project is a partnership with BC forest companies, the Province through FII and China-based developer Shanghai Jinqiao Export Processing Zone Development Co. Ltd.

Phase 1 of three phases was completed in January 2005 with the 888 square metre (9,558 square feet) Demonstration Centre opening its front doors to a warm and ceremonial reception.

Plans are underway for Phase 2, the construction of two single-family homes, commonly known in China as villas, followed by a multi-storey 'hybrid' project of wood and concrete in Phase 3.

The Demonstration Centre is a key initiative to further BC's work in the high-potential Chinese market.

Fiscal year end

In 2004/05, the research program was transferred to another agency. For the year ended March 31, 2004 FII expended $26.5 million on programs including $10.6 million on research. For the year ended March 31, 2005, FII expended $16.5 million on its international marketing and product development programs not including an additional $1.6 million of deferred revenue relating to the capitalization of Dream Home China and other capital assets.

With the submission of the 2004/05 service plan to the government, FII embarked on its second year of operation following a transition from the previous administrative structure under Forintek Canada Corp.

FII's 2004/05 Service Plan set the following four goals:

Goal 1: Effective marketing of BC forest products leading towards a robust and globally competitive forest industry.

Goal 2: Effective communication of BC's sustainable forest management to forest product customers around the world.

Goal 3: A coordinated approach to market development that optimizes partner and recipient contributions.

Goal 4: Sound governance, effective administration, and streamlined operations.

The first three goals set the stage for program activities and the fourth reflects the internal operations of the company in pursuing the other goals. FII is continuously streamlining and consolidating its work so program activities complement and support each other.

GOAL 1: Effective marketing of BC forest products leading towards a robust and globally competitive forest industry.

The targets developed for these goals provide a broad measure of industry performance in key markets. While FII activities contribute to performance, other factors can play a more significant role such as trade negotiations, currency fluctuations, exchange rates and competitor pricing.

Market Acceptance of International Marketing & Product Development Activities

Marketing and product development initiatives are funded by FII and are a small sampling of activities that can affect how BC wood suppliers fare in international markets year after year. Other factors that can dramatically influence market patterns are the local economic climate, the presence and strength of competitors and shifting forest policy in those markets.

B.C. Wood Products Exports By Market (Excluding Logs) 2004

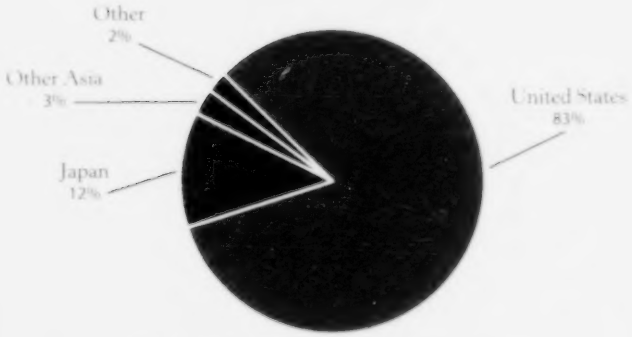


Table courtesy of R.E. Taylor and Associates

2003 BC commodity wood exports = $7.9 billion, 31.2 million cubic metres.

2004 BC commodity wood exports = $9.7 billion (up 23%) and 34.8 million cubic metres, (up 11.6%.)

United States

The United States remains the dominant wood products market in the world and is the main market for all wood products exports. Over the last four years, strong demand in the US housing market has increased the volume of wood product imports into the US. BC manufacturers continued to supply these housing market demands, accounting for 83.3% of all BC commodity wood exports.

FII funded marketing and tradeshow activities to ensure a commanding voice and presence with buyers, to promote the use of wood over steel and concrete in building as well as support the growth of value-added exports from BC to the US.

Other US-based activities included:

- The Western Red Cedar Lumber Association participated in three of ABC TV's hugely popular Extreme Makeover Home Edition shows watched by an estimated 18 million viewers per episode. By being featured on this tremendously successful show, the association was able to bring a much higher profile and awareness of western red cedar products to an international viewing audience.

  Through broad television exposure, in-market activities and other favourable factors, 2004 shipments of BC western red cedar to the U.S. market increased by 16% in volume, in-spite of the rapid increase in the value of the Canadian dollar and heavy competition from plastics and composite products.

BC market share of commodity wood products in the United States – 41.8%

Japan

Japan is the second most important export market behind the United States. While Japan has gone through a number of recessions in the past decade, it continues to lead the world in per capita use of wood products. It is a demanding market where the Japanese are willing to pay premium prices for high-quality products, which creates opportunities for BC's well-established presence in Japan.

In-market efforts as well as sustained marketing in Japan helped expand 2x4 housing starts by 11.3% in 2004 while the 2x4 share of total housing starts increased from 7.03% to 7.63%, indicating progress towards the Council of Forest Industries' objective to increase the 2x4 market share of new-home construction in Japan.

A combination of factors helped to increase overall wood-frame housing starts in Japan by 2.5% to 1,189,049 in 2004, the highest since 2000. Traditional Japanese post and beam construction has also increased by 2.2% to 427,746 starts.

With both 2x4 and post and beam starts increasing, all wooden construction starts increased by 3.4% to 540,756 units, leading to a total market share of 45.5%, up from 45.1% in 2003.

Other activities in the Japanese market in 2004/05 included:

- The Coast Forest Products Association succeeded in increasing the specification and use of Canadian Hemlock (branded as Canada Tsuga E120) through Japanese government approvals for some applications. E120 Hemlock products were also adopted in Japanese computer-assisted design programs used by architects, builders and precutters. Overall, data shows in relation to 2003:

  - Hemlock shipments from coastal BC increased 22%. As a percentage of all coastal shipments, it went from 47 to 49%;
  - Hemlock shipments from BC grew by 80.7 million fbm in volume, and $30.7 million in value; and,
  - The proportion of kiln-dried components from BC increased from 39% to over 42% compared to green materials.

"The United States is the dominant wood-products market in the world and the main market for all BC wood product exports."

Strong Progress in Japan

FII has provided funding for a number of Japan-based projects to help BC forest product companies maintain their market share and increase the opportunities in this crucial market for the BC industry. The investments have helped to make the gains currently being enjoyed in Japan.

One of the most rewarding stories for Canadian building products in Japan in 2004 was the surge in demand for 2x4 housing representing an impressive increase of 11.3% over 2003.

This can be attributed to three main factors:

- Changes to the fire regulations;
- Increased interest in wood-framed apartments; and,
- Japan's continued economic improvement.

Looking at these factors individually, the new fire certification for 2x4 structures has both greatly enhanced the opportunities for where 2x4 structures can be built and also generally improved the image of 2x4 as a building system.

In addition to being allowed to build apartments in fire zones, 2x4 apartment construction has grown as a result of the competitive pricing and stable supply of 2x4s in Japan versus steel and other building systems.

Finally, Japan's improved economic standing has drawn consumers out of their wait-and-see mode for making major purchases since land prices have stabilized in many areas, again encouraging developers and buyers to act.

BC market share for commodity wood products in Japan – 41.6%

China

Ten million new residences are built in China each year, approximately 500 of them from wood. The residential construction market holds tremendous potential for conversion from concrete to wood-frame construction. In addition to the Dream Home Canada Demonstration Centre that opened in Shanghai in January, FII has funded projects to explore Chinese market opportunities and to ensure BC products are accepted under Chinese building codes.

BC market share for commodity wood products in China – 8.1%

Europe, Australia and New Zealand

The European Union and Australia/New Zealand are small but important niche markets for BC forest products. FII's focus is on areas where BC can have a competitive advantage in spite of the shipping distances and local competition.

Douglas fir lumber and western red cedar remain niche species for the Australian and New Zealand markets despite increasing competition from other species of product, engineered wood and new suppliers.

In 2004/05, projects in these markets included:

- In Europe, western red cedar exports from BC increased by 25% in 2004 over the previous year, partially supported by the launch of the Western Red Cedar Export Association's marketing program in Ireland, England and France.
- Canply successfully delivered the first Canada Wood Days in collaboration with the Western Red Cedar Export Association and Canada Wood, targeting the architectural communities in Ireland and the United Kingdom. The association reports an increase of 2.32 million square feet in shipments of Canadian softwood plywood instead of an anticipated decline of 0.5 million square feet.
- In Australia/Oceania, the Western Red Cedar Export Association introduced two new technical and three promotional brochures which, combined with enhanced trade advertising, provided more than 1,000 qualified contacts from the architectural and specifier communities. The marketing and

"In 2004, US housing starts set a 30-year record of 1.96 million units."

promotional programs helped protect BC's western red cedar market share in this existing market and supported an 8% increase in shipments over 2003.

BC market share for commodity wood products

Europe – 0.7%
Australia – 12.5%
New Zealand – 49.4%

Coordinated Tradeshow Initiative

Forestry Innovation Investment Ltd. coordinates the BC Products Showcase to deliver a high-impact presence and branding at major international tradeshows. Rather than individual forestry associations and companies working independently at tradeshows, the BC Products Showcase allows multiple BC organizations to operate under a major banner, thereby increasing BC's presence and visibility in key markets.

All of the shows attended by FII and industry partners were devoted to wood construction, home building, builders, designers, architects and consumers.

In 2004/05, the coordinated tradeshow initiative in China, Japan and the United States attracted international market attention to BC's forest products and drew more than 10,000 attendees to have a closer look at BC's fine wood products.

The tradeshow results have been especially rewarding particularly when booth attendees reported very favourable impressions of the booth and its information. In addition, the BC display was selected best in show at the International Building and Decor Fair in Guangzhou, China.

Exit polling by Veraxis Communications and Research at a major tradeshow in Florida and at another in China revealed strong support for and interest in the BC showcase. Projecting the findings to the total number of Florida attendees, it can be said that roughly 30-40% of 100,000 show visitors noticed the BC Products Showcase and BC Market Outreach Network's virtual forest booth.

In China, almost all interviewees recalled the BC Products Showcase and felt that it stood out above other exhibitors. The exit interviews also demonstrated a strong relationship between visiting the booth and having a positive impression about BC wood products and the province's environmental record.

Two-thirds of respondents said they were likely to buy BC products as a result of visiting the information booth and half of the respondents said their interest was 'much greater' following the visit. Of the respondents, 100% said they were somewhat or much more likely to buy BC products.

Surveying our customers

Surveys conducted for FII by Veraxis Research and Communications at the International Builders' Show in Orlando, Florida in January indicated wood continues to be a dominant building material. Of the builders surveyed, 90% said they use lumber for framing and 73% said they use wood for flooring.

Respondents were also asked how likely they would be to use non-wood products instead of wood. Quality, performance and cost were given as the most important reasons why builders might shift to non-wood alternatives. One reason given for the relatively low ranking of environmental concerns was increased awareness of the negative environmental impacts related to concrete and steel.

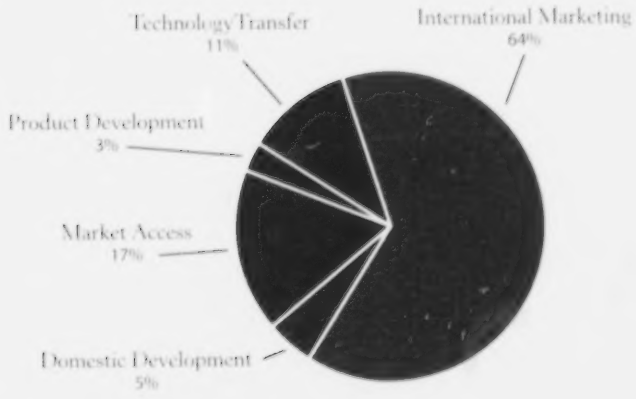
OBJECTIVE 1:

BC wood product manufacturers have maintained or improved access to priority markets.

Performance highlights

FII supports activities that contribute to British Columbia maintaining or improving market access to new and existing markets. This includes activities to overcome non-tariff trade barriers, the development of building codes and standards or other projects designed to support the access for and use of BC's forest products in foreign markets.

FII international marketing and product development investments



New Opportunities in Priority Markets

Forestry Innovation Investment Ltd. is working closely with forest industry associations and other partners to ensure new wood-sales opportunities are identified and pursued in key markets for BC's forest products. During the past year, the following activities were undertaken:

Japan

A series of tests, commissioned by BC's Council of Forest Industries, provided the necessary scientific data to confirm the major softwood species from BC are a suitable and desirable resource for healthy housing. COFI also developed a practical guide which details construction techniques to counter the perception that wood-frame construction shows weaknesses in acoustical performance.

China

COFI and the Canada Wood Group launched the Canada Wood House Service Centre, in the Dream Home Canada Demonstration Centre in Shanghai. The service centre will provide its estimated 210 members with reference and guidance materials, seminars and access to a construction specialist. The service centre members are all from the design and construction community and have the ability to influence the use of wood in local projects.

COFI, supported by work done by Forintek Canada Corp., intensified its efforts to harmonize inconsistent fire regulations in the hope of reducing fire-related, non-tariff barriers in China. A memorandum of understanding was signed between COFI, Canada Wood and the Science and Technology Committee of the Construction and Management Commission of Shanghai to facilitate the development of a local construction code.

The Coast Forest Products Association began a project to help link BC hemlock suppliers with Chinese re-manufacturers and flooring manufacturers for trial production of hemlock flooring in China as well as other markets, including Canada. Through an FII-funded project, the association conducted research on surface hardening of softwoods that resulted in their trial production.

COFI's SPF Group (a group of producers of spruce-pine-fir products) launched part one of a five-part seminar program targeting developers, builders and professionals in design institutes. More than 540 participants took part in seven seminars delivered in six major cities to learn about the features and advantages of wood-frame construction for multi-family units.

Korea

COFI's fire expert and skills assessment work identified changes to Korea's fire code, wood frame building skills deficiencies and the absence of formal building inspections as major challenges to market access for wooden building materials from BC.

COFI and Forintek developed and partially published the Guide to Good Practice for Wood-frame construction in Korea to help builders learn about the proper way to construct a wood structure. The two agencies also continued to provide information and support to the Korean government as it prepared to update its fire codes.

OBJECTIVE 2:

BC is a leader in wood product quality and manufacturing efficiency.

Technology Transfer Program (TTP)

Through the Technology Transfer Program and Forintek Canada Corp., activity focused heavily on projects in the secondary-manufacturing sector, plant visits and responding to technical inquiries. The level of project activity in the secondary industry is up from previous years while the size and complexity of the projects grew compared to earlier projects.

A total of 47 projects were initiated in 2004/05. The majority of the projects dealt with issues around improving the efficiency of processing and reducing manufacturing costs. Initial results from some of these projects show productivity gains and increased sales.

Following an independent program evaluation in 2003/04, Forintek focused on implementation of recommendations from the evaluation. A Strategic Framework and Business Plan for the Technology Transfer Program was developed, including development of a return-on-investment methodology and establishment of baselines and targets.

In Year 1, a baseline target of $2 in economic benefits was established for every technology transfer program dollar invested by FII; within the first three years, a baseline target of $4 in economic benefits will be generated for every TTP dollar invested by FII.

New Products and Processes = New Opportunities

Developing new products, capitalizing on new technology and seizing innovation are crucial to the success of the forest industry. FII has made strong investments in product development with the following highlights in 2004/05:

- Research was carried out to develop an understanding of mountain pine beetle infested wood through the integration of properties as well as log and lumber quality.

  The data from this project will enable sawmills to predict the quantity and quality of lumber extracted from beetle-attacked timber, evaluate monetary losses from log degradation and downgrade, and identify opportunities to lower the cost of production of dimensional lumber.

  In addition, the data suggests new opportunities for use of certain grades of timber or portions of beetle attacked logs for value-added, export wood products.

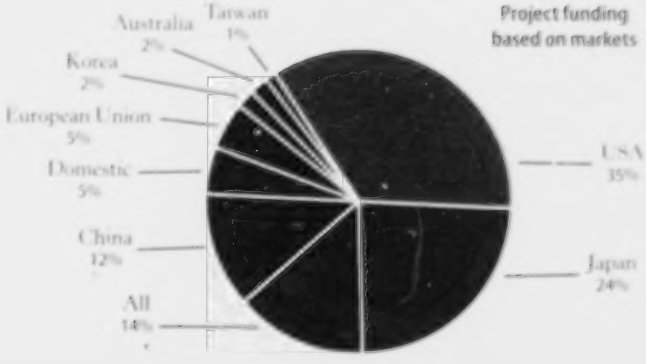
- Alpine fir, not previously considered a value-added product option, is being considered for use as treated decking, exterior siding (cladding) and treated permanent wood foundations. All three of these products offer new export and domestic market potential.

OBJECTIVE 3:

Increased market acceptance and demand in emerging and existing markets.

Focused Market Strategies

FII guides its investment decisions with individual market-by-market strategies. These market strategies help guide FII and funding recipients to ensure their proposals and activities are consistent with the strategic direction and priorities set in the market strategies.



"Japan has the second largest housing market in the world after the US."

In addition to market strategies for Korea, Taiwan and Japan, FII completed strategies with its industry and federal government partners for China and Europe.

With the completion of the Dream Home Canada Demonstration Centre in Shanghai and increased industry participation in the project and country, further refinements were made to the China market strategy to take advantage of the growing opportunities and BC presence in the market.

China Marketing Strategy – Dream Home Canada

With a unique and highly effective building now open and operating on a busy Shanghai road, telling the community more about Dream Home Canada is central to its success in the community and the advancement of wood sales in the country. Burson-Marsteller, a world-renowned public relations and public affairs company, was selected through a competitive process to develop a three-year marketing strategy for the Dream Home Canada program.

Following a strategy session with Canadian forest industry representatives and forestry association partners, an initial desktop research report was developed by the company to outline the opportunities and issues facing wood-frame construction in China.

Additional reports that came from the company's work include:

- Perceptual audit of Chinese construction sector trade/business-to-business and media;
- Consumer Focus Group Report;
- Government Mapping Report; and,
- Three-Year Marketing Plan Proposal.

These reports have been used to develop a framework for the three-year Dream Home Canada marketing strategy and will also be used to link and integrate with the federal, provincial, and association marketing strategies.

In the process of working on event-related media communications, a short-term public relations management program has been developed to help raise the profile of the Dream Home Canada Demonstration Centre. FII Shanghai has started to form relationships with key industry and media representatives which has improved knowledge about the Chinese media and how best to form liaisons with them.

A number of activities have been held at the centre including an outreach seminar for local industry professionals and government officials, the grand opening of the centre in January, the signing of a memorandum of understanding with the Shanghai Science and Technology Commission as well as numerous tours and smaller events.

United States

FII provided a strong presence at key US tradeshows and successfully supported marketing efforts by the Western Red Cedar Lumber Association although a more comprehensive marketing strategy for the United States was placed on hold due to the ongoing softwood lumber dispute.

Strong market and customer acceptance

Understanding our markets and our forest-product buyers is crucial to the success of the forest industry. During FII's activities at key tradeshows, wood buyers, builders and architects from around the world were surveyed to collect their views on the level of market acceptance and priority considerations, such as demand for certified products etc.

Key findings from tradeshow visitor surveys conducted in the United States and China revealed strong support for British Columbia's forest products. Of those who visited the BC Products Showcase display booth, the following views were found:

- Over 90% of respondents felt "positive" about the quality of BC forest products, and that they were generally superior to similar products from other parts of the world.
- Over 70% of respondents felt the value for money provided by BC forest products was "good" in relation to competing products and regions.

"1.2 million new homes were built in Japan in 2004, the highest since 2000."

- Over 70% of respondents visiting the booth said the likelihood they would purchase BC wood products in the future was "greater" than it had been before visiting the BC Products Showcase booth.[4]

Key findings from interviews with wood purchasers in the United States, Europe and Asia as well as key opinion leaders in fields where forestry issues are of significance and whose opinions can influence the forest industry showed the following:

- Asian buyers have a highly favourable opinion of British Columbia products and practices. They view the quality of BC forest products and their performance as superior, although they also perceive them to be more expensive than products from other regions.
- European buyers are generally of the view that North American products are slightly inferior to local products. Upon further probing, they suggest that the difference in quality is in large part due to a perceived lack of infrastructure by way of new machinery and improved techniques. Buyers from Europe argue that Canadian companies lag their European counterparts in terms of sophistication and improvements to machinery and processes.
- European buyers are also of the view that Canadian companies regard the European market as a secondary market: their primary focus being the United States. As a result, transportation infrastructure has been neglected to the extent that transportation has become an important barrier to increased sourcing from Canada.
- Buyers from the US view Canadian and BC forest products and practices in a very favourable light. Not only do they source a large portion (generally more than 50%) of their forest products from Canada, there is a sense among the more engaged customers that Canadian and BC companies are beginning to distinguish themselves from American companies. The quality is improving and the perception is that there are more certified mills in Canada than there are in the US.
- Buyers of forest products continue to use price, quality and availability as the primary criteria for their purchasing decisions. If anything, all three of these criteria are growing in importance over time as customers worry about the balance of supply and demand.
- Environmental criteria have become more embedded in the purchasing decisions of the largest, most sophisticated companies that buy forest products. For the less engaged and typically medium-sized buyers (the United States in particular), it is arguably the case that they are no more concerned about these issues than they were in the past, and possibly less concerned.
- Canadian producers are seen as having significantly improved the substance and style with which they approach environmental issues.
- British Columbia has, by reputation, improved significantly over the last several years. Today, those buyers who are most engaged see BC as having reinvented its positioning in the environmental debate.

OBJECTIVE 4:

Market acceptance of wood affected by natural disturbance agents

New opportunities for wood affected by natural disturbance agents

The 2003 wildfires and the expansion of the mountain pine beetle infestation are having an increasing impact on the characteristics of BC's wood supply. Rehabilitation efforts are underway on many areas damaged by the 2003 fires and the provincial government is working with the forest industry and affected communities to mitigate the impacts of the mountain pine beetle infestation.

[4] Research conducted by Veraxis Research and Communications.

As salvage operations continue for both fire-damaged and beetle-attacked wood, BC must look for new market opportunities, as well as address challenging areas around the market acceptance of the quality of mountain pine beetle blue-stained wood. Many customers confuse blue stain with mould and question the soundness of the wood because they associate blue stain with the first stages of decay. Regardless of whether the end use of blue-stain wood is structural or visual, appearance problems associated with such misconceptions may create barriers to entry into markets outside North America.

Japan

The COFI-SPF Group undertook a survey of existing buyers and users of SPF lumber in order to:

- determine the current level of understanding of the mountain pine beetle blue-stain issue;
- research product acceptance criteria;
- identify potential market acceptance requirements; and,
- assess the adequacy of current technical information.

The survey identified home builders as the critical target group for determining the level of market acceptance of blue-stained lumber. Other key findings are that any increase in supply of blue-stained lumber needs to be gradual over five to 10 years, supported by credible technical information about the wood endorsed by a reputable Japanese authority.

China

In addition to ongoing efforts with the Shanghai Municipal Government and its Science and Technology Committee to investigate building hybrid multi-storey, multi-family buildings with wood, FII signed a letter of intent with the Chinese Academy of Forestry to pursue opportunities for BC wood that has been affected by the mountain pine beetle.

During 2004-05, the following mountain pine beetle activities have determined new opportunities for mountain pine beetle blue-stained lumber in China

- The Chinese Academy of Forestry completed durability and strength testing of mountain pine beetle blue-stained structural lumber to confirm Forintek Canada Corp.'s previous research. The forestry academy has confirmed that mountain pine beetle lumber has no noticeable strength/durability impacts on the wood fibre. CAF will publish these results in China to communicate the positive results to the market.
- A market potential analysis for pressure-treated mountain pine beetle lumber in the China marketplace was carried out with a test group of Chinese customers. The customers were happy with the quality and appearance of the wood and felt that there was minimal difference between treated normal and mountain pine beetle lumber. Ideal applications identified for this wood would be in park and garden applications as well as fascia and other exterior housing components.

British Columbia

During the late stages of 2004, FII commissioned a comprehensive inventory of all of the agencies, government offices and interests associated with the mountain pine beetle issue in BC. This wealth of information will be used by FII to help plan company strategies as well as to ensure good coordination with other stakeholders.

GOAL 2: Effective communication of BC's sustainable forest management to forest customers around the world.

OBJECTIVE 1:

International awareness and support of BC's forest management practices and performance

Increasing awareness of BC's forest management

In July 2004, the BC Market Outreach Network and the Forest Products Association of Canada released an academic study they commissioned that looked at forest policy development

in some of the top forest-product producing jurisdictions around the world. The study, led by Yale University Professor Benjamin Cashore, found BC's regulations were consistently among the most stringent in the world.

The 478-page report, *Global Environmental Forest Policies: Canada as a Constant Case Comparison of Select Forest Practice Regulations*, provides facts that help the Network show international buyers that BC is committed to sustainable forest management and stringent regulation.

BC forest industry representatives, resource community mayors and Canadian embassy staff used the study results to promote BC forest policies internationally and at home. The report garnered media coverage across BC, Canada and in trade publications in key markets such as Germany, the United Kingdom and Japan.

The Network also prepared a 12-page summary which was immediately distributed in English, German and Japanese and soon became one of its most popular documents. About 4,200 copies were sent out, with requests from as far way as Japan and Germany, and another 5,000 were downloaded directly from the Network's website.

OBJECTIVE 2:

FII is the primary source of timely and credible forest management information for customers.

Providing credible information to key audiences

The Network's website, www.bcforestinformation.com, offers neutral, credible information about BC forest practices for audiences around the world, with regular updates in English, Japanese and German. It provides the latest facts on important issues such as voluntary third-party sustainable forest management certification and land and resource management planning. The Network revised the design of its site in 2004/05 to make it easier to use.

The number of visitors to the website increased 26.7 per cent over the 2003/04 total – to 66,000 from 52,077. The average number of visitors each day increased to 181 from 142 in 2003/04; and each spent, on average, 11 minutes on the site, up from 8:44 minutes. The number of international visitors was 58 per cent in 2004/05, up from 47 per cent.

In 2004/05, the Network prepared, posted and distributed a number of fact sheets including several that responded to emerging issues such as concerns about the impact of forestry on the habitat of the endangered mountain caribou and forest management in the boreal region and Clayoquot Sound. The Network produced 10 new fact sheets in addition to the summary report of the Cashore study.

Reaching out to markets

The Network participated in nine trade shows around the world engaging more than 11,500 visitors, including many decision makers in the building/ wood product industry. In 2004/05, trade shows attended included Globe 2004, Drupa 2004, Pacific Coast Builders Conference (PCBC), BC Wood Buyers' Mission, the Japan Home Show, US Green Building Council's GreenBuild Expo, the National Association of Home Builders' International Builders' Show, the Forest Leadership Conference, and Wood Build China 2005.

Research shows that in-person contact at trade shows is an excellent way to reach international customers. Network staff find their presence at shows allows them to conduct a variety of in-market activities such as meeting with customers one-on-one, providing updates on important forestry issues, answering questions, addressing any concerns, building contacts and monitoring emerging issues. They sometimes host presentations and workshops for customers, media and other interested parties.

The Network led nine forestry tours in 2004/05 welcoming nearly 100 international customers, dignitaries, influencers and media from the United States, Japan, Germany, Italy and Sweden.

The tours, on average, were conducted over two days and focused on forest management and the environment. In some cases, reporters were present and this resulted in

"2004 BC softwood lumber exports to China increased by 27% over 2003."

media coverage in major international trade publications. The Network partners with organizations such as the Canadian Forest Service, the BC Ministry of Forests, the Forest Products Association of Canada, embassies and industry to conduct the tours.

Responding to emerging issues

The Network's attendance at trade shows, its relationship with embassies, industry and community leaders combined with issue monitoring, allow it to respond quickly and effectively to emerging issues. The Network is increasingly being asked to respond to developing issues, or is choosing to respond on its own. Its reputation as a source of neutral, credible information helps it to achieve results.

For example, in July 2004, the Network worked with the Forest Products Association of Canada and the Canadian Consulate in Los Angeles to address issues in California that could have damaged a $950-million BC forest products export market. Network staff helped to correct information in a proposed California state senate bill that was damaging to BC's reputation. As a result, the offending language was stricken from the bill in its entirety.

Supporting certification

Network materials promote BC's leadership in voluntary third-party certification. Research shows that certification is extremely important to buyers who do not have the time to learn about all the environmental issues associated with forestry, and that they are increasingly demanding certified products.

The Network supported activities in 2004/05 to reinforce the fact that the three independent certification programs used in the province – the Canadian Standards Association's National Sustainable Forest Management Standard, the Forest Stewardship Council and the Sustainable Forestry Initiative – all assure customers that the products they are buying come from well-managed forests. This is an important message because the majority of BC's forest lands are certified.

Among other things, in 2004/05 the Network:

- Supported CSA in its campaign to secure endorsement of its certification standard by the Programme for the Endorsement of Forest Certification schemes, a global umbrella organization for the assessment of and mutual recognition of national forest certification schemes. This will increase acceptance in Europe of both the Canadian standard and BC products from lands certified to this standard.
- Encouraged the US Green Building Council to be more inclusive and allow credits under its LEED (Leadership in Environmental and Energy Design) green building program for all credible certification schemes.
- Advised several jurisdictions, including New York City and the State of California, that choosing the current LEED standard could unnecessarily limit their purchasing decisions.

Measuring reaction to products

The Network commissioned research in 2004/05 to identify potential environmental issues and measure the effectiveness of its products.

One survey was based on interviews with 64 stakeholders involved with important international markets such as Japan, the US and the European Union. Respondents said the Network's products are useful and credible because they are easy to read, provide key messages backed by facts, look attractive, have an information rather than advocacy tone, are often proactive to address emerging issues and are available in a number of languages.

A second survey based on interviews with 150 forest product customers in the U.S., Europe and Asia reported that the response to these fact sheets was "overwhelmingly positive." They were deemed highly professional with a relevant, succinct and persuasive approach appropriate for both the general public and forest product customers.

"BC's share of commodity wood product exports into China (primarily lumber) is estimated at 8.1% in 2004, up from 5% in 2003."

The research found that the reputation of BC forest products and practices continues to improve, especially among Asian buyers. More engaged customers in all markets believe the BC forest industry has made significant improvements over the past few years.

The Network gauged reactions to its messages and collected research about potential issues by surveying visitors to its booth at two important trade shows – Drupa 2004 in Germany and the International Builders' Show in the United States. At Drupa, the world's largest print and paper show, a total of 7,000 people visited the Network's booth, and exit polls found 84 per cent of those surveyed felt the information presented was credible, with 49 per cent saying it made them feel more confident that buying BC forest products is an environmentally responsible choice.

At the IBS (International Builders Show) in Orlando, Florida, 99 per cent said the booth left a positive or very positive impression. The tracking demonstrated the value of separating messages about forest practices and forest products.

Promoting BC's sustainable forest management at home

BC's popularity with tourists provides an opportunity to reach international audiences without leaving the province, with the added benefit of increasing domestic understanding of forest practices.

For example, the Network launched a campaign to explain the reasons for the mountain pine beetle epidemic, show how BC is responding and to promote its website. This included:

- an educational program for Grades 4-7 in partnership with the Council of Forest Industries; and,
- an awareness campaign with brochures and interpretive signs for visitors travelling to parks and along major highway routes in the Interior.

After Tourism BC sent order forms to tourism offices in areas affected by the beetle infestation, the Network received more than 30 requests for the information, along with notes thanking the Network for providing information that will help visitors and residents alike understand the impact of the beetle and how it is being managed.

Earlier in the year, a summer billboard advertising campaign at 18 high-traffic locations across the province promoted BC's sustainable forest management and the Network's website. The target audience was international tourists, who make up almost half of BC's nearly 11 million annual visitors.

Network staff also attended a number of trade shows in BC, such as the Truck Loggers Association, Forest Expo and the Association of BC Forest Professionals, to increase awareness of the Network's activities both at home and abroad.

GOAL 3: A coordinated approach to market development that optimizes partner and recipient contributions.

OBJECTIVE 1:

Increased level of partner support for FII projects and initiatives.

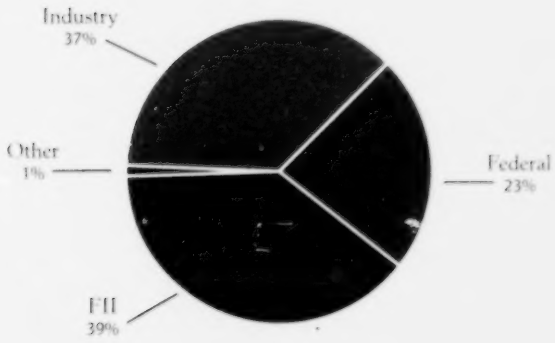
Increasing Leveraged Support

FII's International Marketing and Product Development programs invested $10.7 million for activities in key export markets in 2004/05, including 39 projects conducted by 14 industry and research and development organizations, and a comprehensive, coordinated trade show strategy, BC World Leader in Forest Products.

Ninety-nine per cent of the projects leveraged funding from other sources such as industry and the Government of Canada's Canada Wood Export Program, bringing the total value of projects to $20 million. Sixty-four per cent of the projects leveraged funding from two or more sources.

By encouraging cost-shared funding of projects, industry and government stakeholders coordinate marketing efforts and have a vested interested in the objectives and results of the project.

Partnered funding approach to projects proposals



Dream Home Canada, Shanghai

Dream Home Canada developed a partnership with the Canada Wood Group, which has an office within the Shanghai demonstration centre, to work with the Shanghai Municipal Government to develop local wood-frame construction codes, as well as codes and standards for using wood walls and roofs in hybrid multi-story, multi-family, multi-use buildings.

OBJECTIVE 2:

Increased coordination among forest sector partners and support for FII strategies.

Increased coordination

Forest industry partners, government agencies and others have continued to strengthen partnerships, coordination and strategic approaches to the promotion of BC's forest products in the global marketplace.

A comprehensive investment strategy for each of BC's markets was developed for 2004/05 which served as a strategic template for market activities, funding proposals and research investments. In order to be considered for the annual call for proposals, proponents had to clearly show how their project or proposal would support BC's advancement of market knowledge or product placement in the key wood-sales markets.

The global marketplace is complex, evolving and discerning. The products being produced by British Columbia's forest product companies are regarded as without equal in key markets but there is work to be done to penetrate further into other markets.

By working together in a coordinated and strategic manner, BC will make those gains and it will mean continued strength and success for the forest workers and residents of BC as well as the forests we all depend on.

GOAL 4: Sound governance, effective administration, fiscal accountability and streamlined operations.

OBJECTIVE 1:

A results-based organization.

OBJECTIVE 2:

An accountable and transparent organization that provides good value for money.

FII administration

Forestry Innovation Investment continued its path of solid governance and administration during the year with strong auditing and deadline reporting.

The company's goal of meeting a 4.5% administration rate was modestly missed and hampered by extraordinary one-time administrative charges and costs associated with the restructuring of the senior levels of the company.

Corporate Services

Throughout 2004/05, FII delivered reports in accordance with its agreement with the Ministry of Forests, including quarterly reports and monthly financial reports. It also submitted its second service plan within the timeframes required in the Budget Transparency and Accountability Act.

Financial management and control

During the year, FII revised and updated the previously existing financial policies and procedures. These were updated to continue to improve the financial control system that allows for the administration of funds in a fully accountable manner. Accountability is paramount to succeed in meeting the requirements of the FII Agreement with the Minister of Forests and also to live within the intent of BC government financial policies and controls.

Financial monitoring

Audits have been completed and funds remaining from the 2003/04 fiscal year will be added to the 2004/05 surplus and the total surplus will be returned to government in the first quarter of the 2005/06 fiscal year.

During the year, FII formed an audit committee comprised of the Deputy Minister of Finance, Assistant Deputy Minister of Forests and Assistant Deputy Minister of Small Business and Economic Development.

Grant Thornton has been appointed internal auditors for FII and is working with the audit committee to develop the audit plan for the 2005/06 fiscal year.

Risk Management

FII is presently working on a risk management strategy for the Vancouver operation as well as the wholly owned foreign enterprise FII Consulting (Shanghai) Co. Ltd.

In early 2005, the Vancouver Policies and Procedures Manual was reviewed and updated. More recently, the China Governance manual has also been revised to reflect the changes in the management of spending authorities and responsibilities.

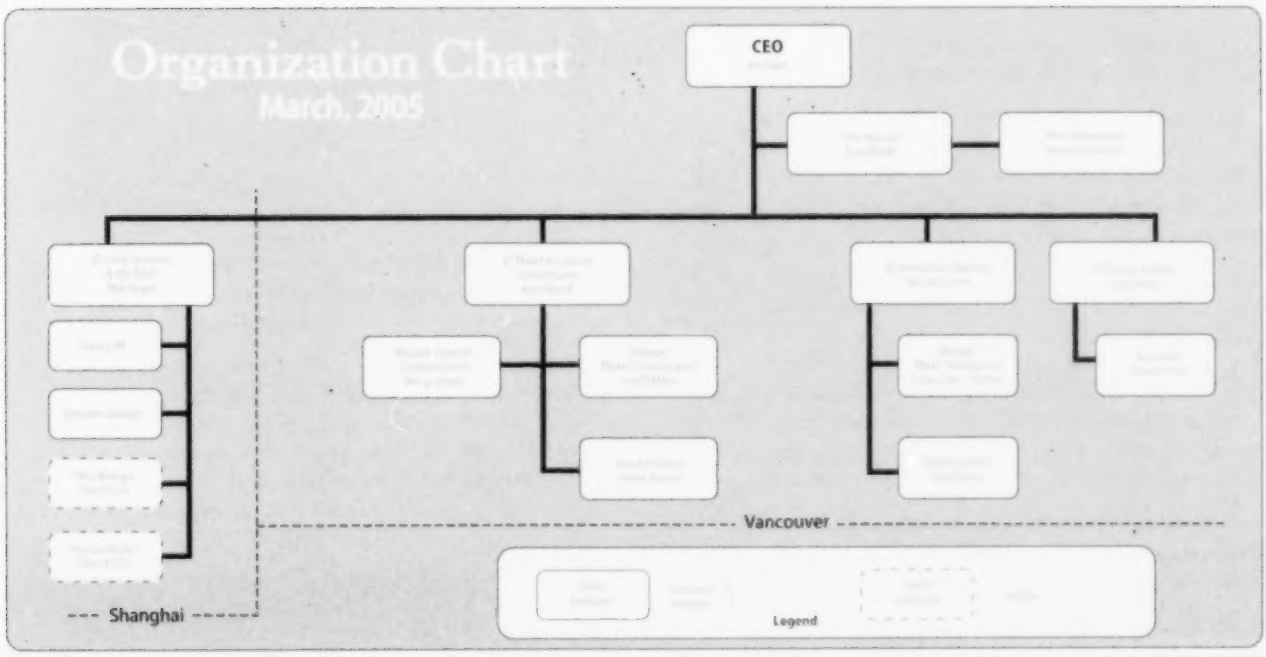
An internal audit program has been approved for both Vancouver and Shanghai and initial audit work has already been started in Vancouver under the direction of the board of directors' Audit Committee.

Human Resource Management

FII continued to implement its human resource management plan for both FII Vancouver and FII Shanghai, successfully filling vacancies as required. FII restructured its finance and administration department, creating new positions for vice president, finance and corporate accountant. The restructured model will reduce the dependency on outside consultants, including human resources.

On February 9, 2005, FII became a public sector employer under the *Public Sector Employers Act*. FII worked to incorporate the changes in employment terms inherent in the new legislative requirements.

"China reported 9.1 million new home starts in 2004 with an estimated 10.2 million more expected in 2005. New home starts are expected to grow by 54% over the next five years."



Governance

The Province of British Columbia, as represented by the Minister of Forests, is the sole shareholder of the company. The company is managed through a Board of Directors made up of:

- Deputy Minister of Forests;
- Deputy Minister of Finance; and,
- Deputy Minister of Small Business and Economic Development.

The board has primary accountability for:

- FII's corporate performance;
- interpreting FII's mandate as expressed by government;
- providing strategic direction and stewardship to the FII Executive;
- approving the direction of the business; and,
- overseeing and reporting on FII's progress toward meeting its objectives.

A three-person audit committee provides financial oversight for the board. The members of the committee are:

- Deputy Minister of Finance;
- Assistant Deputy Minister, Corporate Policy & Governance, Ministry of Forests; and,
- Assistant Deputy Minister, Management Services Division, Ministry of Small Business and Economic Development.

FII operates under an agreement with the Province and requires a funding vote from the legislature in order for the organization and its programs to continue each year.

"BC commodity wood exports were 34.5 million cubic metres in 2004, up almost 11% from 2003."

Forestry Innovation Investment Ltd. is committed to the following principles to guide its activities and delivery of services:

Accountability Establishing structures and processes, setting performance-based standards and measures, and implementing compliance monitoring, auditing and reporting to enable and demonstrate cost-effective progress towards FII goals and objectives.

Competitiveness and Innovation Ensuring that British Columbia remains internationally competitive by improving the value derived from BC's forest land asset. This involves investments that encourage innovative approaches, technologies and skills and improve manufacturing processes and products, as well as marketing and communication activities to increase BC's market share in both new and existing markets.

Continuous improvement Learning from the past and improving the effectiveness and efficiency of FII programs, by optimizing the use of resources by recipients and FII.

Knowledge-based decision-making Making informed decisions built on current, accurate market-based information and risk assessment.

Transparency Establishing open and understandable decision-making and investment processes, and ensuring that FII policies on competitive tendering are applied, and regular performance reporting is conducted.

Positive Return on Investment Ensuring that FII investments optimize the return to British Columbia based on an appropriate balance between short-term and longer-term returns is achieved.

Working in Partnership Working in partnership with internationally recognized associations to ensure that FII services and functions can be efficiently delivered in a coordinated manner and to ensure that funds are used to address priority issues and needs of the forest sector.

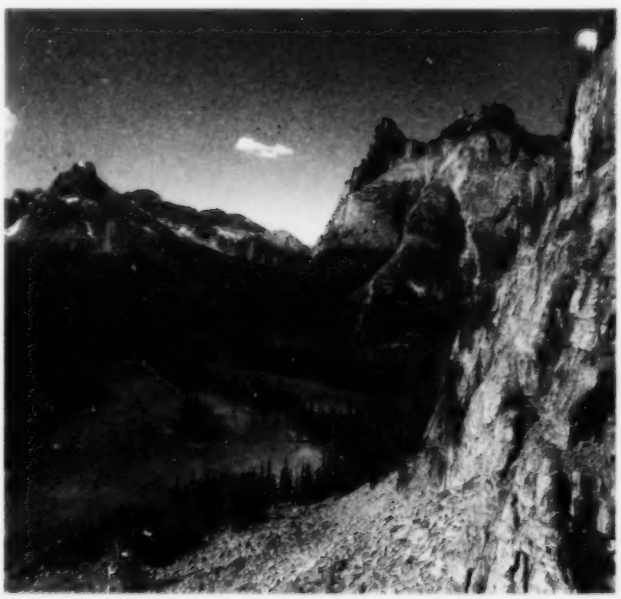
Consistency with government's strategic plan

Through its goals, FII primarily supports the government's long-term goal:

- A strong and vibrant provincial economy

2004/05 was a landmark year for forest industry earnings and market success. British Columbia relies heavily on the bountiful forest resource and a strong year for the industry translates into strong employment within the industry, through secondary employment and through many other avenues of the economy.

FII's role is to provide forest product associations, agencies and the industry with continuing support to ensure key markets know about and have access to BC's fine wood products. Through strategic investments and strong partnerships, FII is working with BC's forest industry to contribute to a robust BC economy.



GOAL 1: Effective marketing of BC forest products leading towards a robust and globally competitive forest industry.

Performance Measures:

- Value of wood product sales
- Market share for BC wood products

2004/2005 Target	2004/2005 Results	2005/2006 Target	2006/2007 Target
Maintain market share in Japan.	**Exceeded targets** Market Share of commodity wood products • Japan: 41.6% (+4.6%) • China: 8.1% (+3.1%) • Taiwan: 21.8% (+0.8%) • South Korea: 5.9% (+2.1%) • Australia: [1]2.5% (-.6%) • New Zealand: 49.4% (+10.6%)	Maintain market share in the US and Japan.	Maintain market share in the US and Japan.
Market share increase in key emerging markets (China, Taiwan, Korea).		Improvement in performance in emerging markets (China, Taiwan, Korea).	Improvement in performance in Chinese, Taiwanese and Korean markets.
Develop specific targets for other key markets and products.	**Met target** Developed specific targets for United States, Japan, China and South Korea, as well as coastal, SPF and value-added products. These have been included in the 05/06-07/08 Service Plan.	Identification of potential for BC wood products in other markets.	Initiation of product promotion activities in other emerging market areas, as identified.
Test uptake and acceptance of product promotion materials and activities provided by FII and its recipient organizations	**Met target** Products tested well and in some cases extremely well. Spokespeople were credible, information viewed as highly professional and the content of some items applauded as particularly informative.	Increase in uptake and acceptance of product promotion materials and participation in market activities among key customers.	Tested satisfaction of key international customers with product promotion materials and market activities delivered by FII and its recipient organizations.

Objective 1: BC wood product manufacturers have maintained or improved access to priority markets.

Performance Measures:

- Number and significance of strategic non-tariff barriers identified and addressed

Strategies:

- Collect comprehensive information to identify technical and non-tariff market barriers
- Develop and implement strategies to remove technical and non-tariff barriers that affect market access

2004/2005 Target	2004/2005 Results	2005/2006 Target	2006/2007 Target
Acceptance of wood construction in Japanese non-residential low-rise building and fire codes. Implementation of wood building codes for China and Taiwan • Market access improved in priority markets	**Exceeded target** Acceptance of wood construction in Japanese three and four-storey, non-residential buildings and fire codes in higher density areas. Implementation of wood frame building codes for China and Taiwan. Work is in progress to ensure acceptance of wood construction in China residential fire codes. **Met target** Acceptance of wood construction in Korea for three and four-storey multi-family building. Product testing undertaken with scientific institutions in key markets to address non-tariff trade barriers.	Wood building codes for Korea implemented. Market access improved in priority markets as indicated by reduction in number of critical non-tariff trade barriers addressed (3 -5 in key markets).	Market access improved in priority markets as indicated by reduction in number of non-trade barriers addressed (2 -4 in key markets).

Objective 2: BC is a leader in wood product quality and manufacturing efficiency.

Performance Measures:

- New products, applications or processes developed and implemented
- Return on investment for FII funded projects

Strategies:

- Develop and test forest products and manufacturing processes
- Identify and test innovative applications for new wood products
- Extend technical information to B.C. manufacturers

2004/2005 Target	2004/2005 Results	2005/2006 Target	2006/2007 Target
	Target exceeded 47 technology transfer projects initiated in 2004/05.	Positive ROI from all recipient projects.	Positive ROI from all recipient projects.
7 to 10 products, applications or processes.	3 products using alpine fire (decking, siding and permanent wood foundations). 6 projects improved processes to help lower the cost of production.		
Develop an ROI methodology and establish baseline and targets	**Met target** Assessment of ROI approaches and their appropriateness for FII-funded projects completed. ROI methodology developed for select project areas. To start, ROI baseline and targets developed and piloted for the Technology Transfer Program.		

Objective 3: Increased market acceptance and demand in emerging and existing markets.

Performance Measures:

- Market specific strategies
- Implement marketing strategy for China
- Level of market/customer acceptance for BC wood products

Strategies:

- Collect comprehensive market information and develop market-specific development strategies
- Determine level of market acceptance for new and existing products and applications
- Increase market awareness, acceptance and demand
- Promote B.C. forest products

2004/2005 Target	2004/2005 Results	2005/2006 Target	2006/2007 Target
	Substantially met target 100% of funded projects in compliance with Japan, Korea and Taiwan strategies. China and Europe strategies completed in time for 05-06 projects. United States strategy has been placed on hold due to the ongoing softwood lumber dispute.	Implement specific investment strategies for each market.	Increased market acceptance for BC wood practices and products; and increase in sales of B.C. wood products.
Strategies developed for Japan, United States, and Europe. Strategies implemented in China (see below), Korea and Taiwan.		Wood interior wall and roof truss assemblies developed and tested in hybrid structures. Multi-family structures constructed.	Quantitative data available to BC forest sector on consumer, builder and developer preferences in China. Increased number of developers and builders familiar with wood construction.
Construction of Dream Home Canada Demonstration Centre and single family demonstration facilities. First phase of marketing.	**Target substantially met** Demonstration Centre constructed. Single family demonstration facilities to begin 2005. First marketing activities undertaken with media and other events.	Marketing, market research, tech transfer activities continue. Initial quantitative data on developer, builder and consumer preferences available. Full acceptance of wood frame construction in the building code, acceptance of hybrid structures in local codes.	

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Objective 3: Increased market acceptance and demand in emerging and existing markets.

2004/2005 Target	2004/2005 Results	2005/2006 Target	2006/2007 Target
Higher level (2 - 5% increase) of acceptance of key target groups.	**Replaced target** Customer surveys initiated in 2004/05. Opinion of BC products and practices is highly favourable. The quality of BC forest products and their performance is viewed as superior although they are also perceived to be more expensive than products from other regions. Results to be used as benchmark again 05/06 survey results.		Higher level (2 -5% increase) of acceptance of key target groups.

Objective 4: Market acceptance of wood affected by natural disturbance agents.

Performance Measures:

- Level of market/customer acceptance for BC wood products

Strategies:

- Develop and test forest products derived from wood affected by natural disturbance agents
- Extend technical information to B.C. manufacturers on the properties, characteristics and safety of products derived from wood affected by natural disturbance agents
- Determine level of market acceptance and increase market awareness, acceptance and demand for products derived from wood affected by natural

2004/2005 Target	2004/2005 Results	2005/2006 Target	2006/2007 Target
Implement projects with Chinese authorities to facilitate the testing of wood affected by natural disturbance agents. Similar activities undertaken in other key market areas where staining or other issues with natural disturbance agents may present non-tariff trade barriers. Identification of requirements for the import of wood affected by natural disturbance agents in key market areas.	**Met target** Chinese Academy of Forestry testing of mountain pine beetle blue-stained lumber confirmed that mountain pine beetle lumber has no noticeable strength/durability impacts on the wood fibre. Results to be published in China. Initial research on the acceptability of mountain pine beetle blue-stained lumber in Vietnam, a growing user of wood for furniture manufacturing, has shown that no restrictions currently apply. Market acceptance criteria determined for Japan	Some level of customer acceptance and visible use of wood affected by natural disturbance agents.	Continued increase in the level of customer acceptance and use of wood affected by natural disturbance agents.

GOAL 2: Effective communication of BC's sustainable forest management to forest product customers around the world

Objective 1: International awareness and support of BC's forest management practices and performance

Performance measures:

- Level of awareness and support for BC forest management.
- Number of website visits.
- Number of in-market activities conducted.
- Timely dissemination of relevant information

Strategies:

- Provide international customers with timely, credible information regarding BC forest practices.
- Monitor and analyze mainstream and trade media.
- Conduct in-market activities through trade shows, seminars, and meetings with customers.

2004/2005 Target	2004/2005 Results	2005/2006 Target	2006/2007 Target
Increased awareness and support for BC forest management. 5% increase in website visits Expand electronic and other communication tools to include translations into languages other than English, German and Japanese as indicated by customer need. 5-7 in-market projects conducted.	**Exceeded target** 26.7% increase in website visits (to 66,000 in 2004/05 from 52,077 in 2003/04) 181 visitors a day, up from 142 58% international visitors, up from 47% **Removed target** Customer need shows that the highest demand for languages other than English continues to be German and Japanese **Met target** 6 in-market trade shows direct contact with nearly 11,000 people in-market, including many building and wood product industry decision makers	Increased awareness and support for B.C. forest management. 5% increase in website visits Continued maintenance and expansion of electronic and other communication tools to provide information in formats accessible to key markets/ audiences to respond to priority issues. 5-7 in-market projects conducted. Timely response to the market need for information (e.g., fact sheets).	Increased awareness and support for B.C. forest management. 5% increase in website visits Continued maintenance and expansion of electronic and other communication tools to provide information in formats accessible to key markets/ audiences to respond to priority issues. 5-7 in-market projects conducted. Timely response to the market need for information (e.g., fact sheets).

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Objective 1: International awareness and support of BC's forest management practices and performance

2004/2005 Target	2004/2005 Results	2005/2006 Target	2006/2007 Target
Timely response to the market need for information (e.g. fact sheets)	Commissioned and released results of academic study of international forest regulations (with FPAC) Advocacy (with Canadian consulate and FPAC) to challenge California state bills threatening to damage a major BC's export market. Encouraged changes to the LEED green building standard to increase acceptance of wood Delivered up-to-date information on Central Coast planning (in partnership with the Ministry of Sustainable Resource Management, presentation at Drupa, Balance newsletter, fact sheet, letters, Q&As) Supported CSA's campaign that led to endorsement of the National Sustainable Forest Management Standard by PEFC Released/translated Clayoquot fact sheet in Japan to coincide with TV feature Mountain pine beetle awareness campaign (education program in partnership with COFI; brochures, signs		

Objective 2: FII is the primary source of timely and credible forest management information for customers.

Performance Measures:

- Level of customer utilization and acceptance of FII information

Strategies:

- Streamline the production and distribution of forest management information
- Coordinate the communications and the delivery of information about forest practices and liaise with industry, government and communities to ensure factual information reaches target audiences
- Produce technically accurate and neutral information products

2004/2005 Target	2004/2005 Results	2005/2006 Target	2006/2007 Target
Continued high level of credibility of FII information.	**Met target** Survey of industry agents/ embassy staff in key markets – strong support of products Survey of key international customers – overwhelmingly positive response to products Exit polling at trade shows in Germany (Drupa) and the U.S. (IBS) – Network presence is credible and effective	Continued high level of credibility of FII information.	Continued high level of credibility of FII information.

GOAL 3: A coordinated approach to market development that optimizes partner and recipient contributions.

Objective 1: Increased level of partner support for FII projects and initiatives.

Performance Measures:

- Leveraged funds as a percentage of total project costs.

Strategies

- Cost share projects with industry and other partners.

2004/2005 Target	2004/2005 Results	2005/2006 Target	2006/2007 Target
	Met target		
Baseline funding - 35% of total project costs from industry for offshore projects, and 50% for U.S. focused projects	Offshore projects 58 % of projects meet the baseline 24% of projects exceed the baseline U.S.-focused projects 10 % of projects meet the baseline 60% of projects exceed the baseline	Continue to increase the level of partner support.	Continue to increase the level of partner support.
Secure partner contributions partners for Dream Home China and BC Market Outreach Network Initiatives.	Developed partnership with Canada Wood group to work with the Shanghai Municipal Government on developing local wood-frame construction codes, as well as codes and standards for using wood walls and roofs in hybrid multi-storey, multi-family, multi-use buildings. BCMON leveraged contributions through joint initiatives with the Forest Products of Canada, forest companies in BC and the Canadian Forest Service. Joint projects such as the Cashore study, customer forest tours and advocacy projects resulted in further leverage and reduced costs for the Network's activities.		

Objective 2: Increased coordination among forest sector partners and support for FII strategies.

Performance Measures:

- Value of projects funded through FII that support sector-wide strategies.

Strategies:

- Strengthen the linkages between forest industry partners by pursuing coordinated marketing initiatives through forest sector associations
- Work with federal, provincial and industry partners to identify and develop opportunities to coordinate programs and activities.

2004/2005 Target	2004/2005 Results	2005/2006 Target	2006/2007 Target
100% of funded projects in compliance with adopted strategies for China and Korea. Strategies developed for Japan, United States and Europe.	**Missed target** In 2004/05, strategies in place for Korea, Taiwan, Japan, China and Europe. Activities increasingly compliant with strategies and 100% compliance now expected following completion of all strategies. United States strategy has been placed on hold due to the ongoing softwood lumber dispute.	100% of projects are in compliance with adopted strategies.	100% of projects are in compliance with adopted strategies.

GOAL 4: Sound governance, effective administration, fiscal accountability and streamlined operations.

Objective 1: A results-focused organization.

Performance Measure:

- Percentage of FII budget that is allocated to administration.
- Percentage of corporate performance targets achieved.

Strategies

- Develop and implement a performance-based management and budgeting framework
- Refine business processes to optimize efficiency and cost-effectiveness

2004/2005 Target	2004/2005 Results	2005/2006 Target	2006/2007 Target
4.5 % of total FII budget or less allocated to admin. subject to FII board direction.	**Target missed** Actual administration costs came in at 4.7% of the FII budget reflecting one-time expenditures associated with restructing.	4.5 % of total FII budget or less allocated to admin. subject to FII board direction.	4.5 % of total FII budget or less allocated to admin. subject to FII board direction.
Achieve performance targets.	**Target met** 84% of targets met; four replaced, one missed due to the timing of country reports and the administration target was modestly missed (see above.)		

Objective 2: An accountable and transparent organization.

Performance measures:

- Corporate and program level risk assessments conducted for all programs and corporately.
- Monitoring, audit and evaluation activities completed in accordance with approved audit and evaluation plan and reported within timelines established.

Strategies:

- Conduct comprehensive risk assessments across the whole corporation
- Monitor, audit and evaluate FII highest-priority projects and programs as identified through the risk assessments
- Ensure regular and accurate reporting on the results of investments in support of corporate goals and objectives and in accordance with government and contractual requirements.

2004/2005 Target	2004/2005 Results	2005/2006 Target	2006/2007 Target
	Target met		
Monitor 100% of funded projects.	100% of projects monitored	Monitor 100% of funded projects.	Monitor 100% of funded projects.
Audit Plan implemented including audits of 75% of IM/PD projects, and other programs as determined through the risk assessment.	**Target exceeded** Over 90% of IMPD projects audited	Audit Plan implemented, including audits of 60% of IM/PD projects, and other programs as determined through the risk assessment.	Audit Plan implemented, including audits of 50% of IM/PD projects, and other programs as determined through the risk assessment.
Evaluation of 2 key projects, program areas or markets.	**Target met** Canply and Technology Transfer Program evaluated in detail.	Evaluation of 2-3 key projects, program areas or markets.	Evaluation of 2-3 key projects, program areas or markets.
Complete a value-for-money review on one core business area	Technology Transfer Program value for money review completed and business plan/promotional program implemented.	Achieve 100% of established reporting deadlines.	Achieve 100% of established reporting deadlines.
Achieve 100% of established reporting deadlines.	**Target Met** Reporting deadlines all met	Release Call for Proposals by January.	Release Call for Proposals by January.
Release call for proposals by January.	Call for proposals issued in November.	Announcement of successful proponents by end of April.	Announcement of successful proponents by end of April.
Announcement of successful proponents by end of April.	Funding decisions		

"The United States accounts for 83.3% of all BC commodity wood product exports."

FII completed its second year of operations under an amended agreement between the Province of BC as represented by the Ministry of Forests and itself which was executed to restate and clarify FII's obligations regarding the research program.

Effective April 1, 2004 FII was no longer responsible for the administration and delivery of the research program. Under this amended agreement, FII continues to administer and deliver high priority Product Development and International Marketing Initiatives and programs which are funded, in part, from the Forest Investment Account.

During the year, FII received the full $18.75 million budgeted funding amount. Despite recipients confirmation prior to the year-end that the majority of funds provided to them would be fully spent by year-end, some recipients subsequently reported under-spending that totaled close to $350,000.

Following audits on the recipient accounts for 2003/04, an additional $231,000 of under-spent advances has been returned to FII for the period.

FII's direct 2004/05 program costs were under-spent by $375,000 such that, in accordance with the agreement with the Province of BC, FII will be returning excess funds of $1,016,000 (which includes $45,000 of earned interest) to the Province.

A further $500,000 US was provided by FII to FII Consulting (Shanghai) as a shareholder's loan to enable the company to meet its initial funding requirements for the villa project in the People's Republic of China. These funds have been committed under an agreement with the development company as additional pre-paid lease payments for the Dream Home China Project, but which will be used for the construction of the demonstration homes in Shanghai.

FII Consulting (Shanghai) is registered under the laws of the Peoples Republic of China and as such has a December 31st fiscal year end. As required under the laws of the Peoples Republic of China, an audit of FII Consulting (Shanghai) was conducted at December 31, 2004. The financial statements of the parent company, Forestry Innovation Investment Ltd., include all of the transactions of the subsidiary during the parent company's fiscal year ended March 31, 2005.

Some funds were spent on capital transactions within the corporation including leasehold improvements and certain furniture, office and computer equipment. Final payments for the construction of the Demonstration Centre at the Dream Home Canada site were complete this fiscal year and have been added to the accumulated deferred revenue and capitalized pre-paid lease accounts. Final accumulated costs of the Dream Home China project will be amortized over a three-year period scheduled to start when the construction of the villas is complete.

Looking ahead

FII expects to continue being funded according to the terms of its agreement with the Ministry of Forests. The Ministry has indicated that funding will amount to $21.450 million in 2005-06, and likely again the following year, in accordance with the Ministry's three-year service plan. However, the Ministry has more recently indicated that funding to FII may be increased over the next three years if the federal government makes its intended $100 million contribution to mountain-pine-beetle-related activities. FII would employ that increased funding specifically in testing, developing, and marketing new products made from beetle-killed timber.

International Marketing and Product Development program funding to recipients is expected to continue at roughly $9 million per year, and FII expects to spend about $1 million per year for promotion at various trade shows. Approximately $2.8 million will be spent each year by the BC Market Outreach Network program to monitor relevant international news and intervene from time to time, make international and domestic audiences aware of BC's forest management standards and explain problems such as the mountain pine beetle epidemic.

Of special interest in the coming years will be FII's financial support for showcasing BC wood products in BC and in China. FII anticipates significant financial investments

in the 2010 Olympic venues and possibly, also to the expanded Vancouver Trade & Convention Centre.

FII (Shanghai) will spend about $1 million to build two villas next to the Dream Home Canada demonstration centre, and $0.5 million will be put towards the first hybrid (i.e., part concrete, part wood frame) multi-storey structure in Shanghai. Future demonstration projects to be funded by FII (Shanghai) will likely include a wood frame-based renovation of at least one concrete apartment building in Shanghai, and expanding into Beijing.

Statement of Management Responsibility

Management, in accordance with Canadian generally accepted accounting principles, has prepared the financi statements of Forestry Innovation Investment Ltd. These statements present fairly the financial position of th Company as of March 31, 2005 and results of its operations and cash flow for the year ended March 31, 2005.

Management is responsible for the preparation, integrity and objectivity of the financial statements. Systems of internal control are developed and maintained by management to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained to provide a reliable basis for preparation of the financial statements.

The Auditor General of British Columbia has performed an independent review of the financial statements. T of the Auditor General outlines the scope of his work on the financial statements of Forestry Innovation Invest

K. Baker

Chief Executive Officer

Vice President Finance & Administration

Vancouver, British Columbia
May 13, 2005

Report of the Auditor General of British Columbia

To the Members of the Board of Directors
of Forestry Innovation Investment Ltd., and

To the Minister of Forests,
Province of British Columbia

I have audited the balance sheet of *Forestry Innovation Investment Ltd.* as at March 31, 2005 and the statements of operations and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of *Forestry Innovation Investment Ltd.* as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Stelioff

Victoria, British Columbia
May 13, 2005

Wayne Stelioff, FCA
Auditor General

March 31	2005	2004
Assets		
Current assets		
Cash	**1,463**	6,360
Accounts receivable	**461**	110
Prepaid expenses	**496**	242
Program advances (note 4)	**349**	282
	2,769	6,994
Dream Home China (note 5)	**3,572**	2,344
Capital assets (note 6)	**1,175**	936
	7,516	10,274
Liabilities		
Current Liabilities		
Accounts payable (note 7)	**1,551**	1,150
Program payables (note 4)	**213**	4,680
Due to the Province of British Columbia (note 8)	**1,016**	1,169
	2,780	6,999
Capital lease	**4**	9
Deferred revenue (note 9)	**4,676**	3,120
	4,680	3,129
Shareholders' equity		
Share Capital (note 10)	-	-
Contributed surplus (note 11)	**56**	146
Retained earnings	-	
	56	146
	7,516	10,274

Commitments (note 12)

On behalf of the Board

Chair

Director

The accompanying notes and supplementary schedule are an integral part of these financial statements.

For the year ended March 31	2005	2004
Revenue		
Contribution from the Province of British Columbia	**16,454**	26,531
	16,454	26,531
Program costs		
International marketing		
Marketing	**6,755**	6,391
China operations	**880**	928
Dream Home China	**407**	-
BC Market Outreach Network	**2,736**	2,774
	10,778	10,093
Product development	**3,931**	4,476
Research	-	10,631
	14,709	25,200
Administration	**1,288**	1,266
Amortization	**547**	155
	16,544	26,621
Excess of revenue over expenditures	**(90)**	(90)
Transfer from Contributed Surplus (Note 11)	**90**	90
Retained earnings end of the year	-	-

The accompanying notes and supplementary schedule are an integral part of these financial statements.

For the year ended March 31	2005	2004
Cash flows used in operating activities:		
Marketing	**(6,794)**	(5,845)
China operations	**(1,009)**	(756)
BC Market Outreach Network	**(1,592)**	(2,630)
Product development	**(3,715)**	(4,164)
Research	**-**	(6,371)
Administration	**(1,995)**	(1,258)
Prepaid expenses	**(456)**	(242)
Final Payments against March 31, 2004 accruals	**(6,121)**	-
	(21,682)	(21,266)
Cash flows used in investing activities:		
Interest on investments	**45**	192
Dream Home China	**(1,228)**	(2,344)
Asset acquisition	**(782)**	(837)
	(1,965)	(2,989)
Cash flows from financing activities:		
Contribution from the Province of British Columbia	**18,750**	30,615
Increase/(Decrease) in cash during the year	**(4,897)**	6,360
Cash beginning of year	**6,360**	-
Cash end of year	**1,463**	6,360

The accompanying notes and supplementary schedule are an integral part of these financial statements.

1) Nature of business

Forestry Innovation Investment Ltd. (the Company), was incorporated on March 31, 2003 under the laws of British Columbia. A board of directors, all appointed by the government of British Columbia governs the Company.

International marketing – Intended to strengthen British Columbia's opportunities in existing markets for BC forest products and develop and pursue new forest sector market opportunities in emerging markets.

Product development – Designed to assist funding recipients to improve manufacturing processes and support technology transfer, develop new types or uses of forest products, and support market access initiatives by removing technical barriers to trade.

The Company is exempt from federal and provincial income taxes.

2) Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Consolidation

The Company incorporated a wholly owned subsidiary registered under the laws of the People's Republic of China – FII Consulting (Shanghai) Co., Ltd. The company was required so that business can be carried on in China. There are restrictions imposed on the distribution of earnings and other transactions with the foreign subsidiary and hence it has not been fully consolidated in these financial statements. However these financial statements reflect all the transactions of the subsidiary during the year.

b) Construction in progress

Costs incurred in the development and construction of the Dream Home China project have been deferred and will be amortized as lease payments over three years once the construction has been completed. Pre-development costs incurred prior to the approval of a project are expensed.

c) Capital assets

Capital assets are recorded at cost and amortization is being calculated on the straight-line basis using the following rates:

Computer Equipment	3 years
Computer Software	2 years
Furniture and Equipment	5 years
Leasehold Improvements	Term of Lease
Trade Show Booths	5 years
Website development Costs	2 years

Assets costing less than $1,000 are expensed in the year of acquisition.

d) Revenue recognition

Contributions from the Province of British Columbia are for specific purposes and as such are deferred and recognized as revenue as the expenses are incurred.

e) **Foreign currency translation**

Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at the transaction date.

Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the balance sheet date.

f) **Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

g) **Related party transactions**

The Company is related through common ownership to all Province of British Columbia ministries, agencies and crown corporations. Transactions with these entities, unless disclosed separately in these financial statements, are generally considered to be in the normal course of operations and are recorded at the exchange amount.

3) Financial instruments

At March 31, 2005, the company's financial instruments include all cash, accounts receivable, other receivables, accounts payable and accrued liabilities. The fair values of the company's financial instruments approximate carrying amounts.

4) Program advances and payables

The company advances funds to recipient organizations during the year to carry out program activities. At March 31, 2005, certain amounts have been identified as repayable by the recipients and have been set up as program advances. Other amounts remain payable to recipients on the basis of their funding requests, final reporting or holdback provisions – these have been set up as program payables.

5) Dream Home China

The Company provided the registered capital of $1,605,840 (US $1,200,000) to FII Consulting (Shanghai) Co., Ltd. through a grant agreement, whereby the funds are committed to the Dream Home China project and cannot otherwise be returned to the Company. The Company has entered into an agreement with a development company in China with respect to the construction and lease back of a demonstration centre and wood frame construction villas. All construction related costs of this project are being capitalized and will be expensed over a three-year period on the completion of the construction.

	2005	2004
Registered capital	**1,606**	1,606
Construction-in-progress	**1,966**	738
	3,572	2,344

6) Capital assets

	Cost	Accumulated Amortizations	2005 Net Book Value	2004 Net Book Value
Computer Equipment	222	112	**110**	69
Computer Software	77	50	**27**	23
Furniture and Equipment	212	38	**174**	111
Leasehold Improvements	72	50	**22**	58
Tradeshow Booths	934	269	**665**	433
Websites	359	182	**177**	242
	1,876	701	**1,175**	936

Cost includes the fair market value of certain assets transferred to the Company from the Province effective April 1, 2003, for one dollar. The assets are reflected as contributed surplus.

7) Accounts payable

	2005	2004
Trade payables	**1,491**	1,145
Accrued liabilities	**55**	-
Current portion of capital lease	**5**	5
	1,551	1,150

8) Due to the Province of British Columbia

	2005	2004
Balance, beginning of the year	**1,169**	-
Funds received for current year operations	**18,750**	30,615
	19,919	30,615
Payments made to the Province	**(1,169)**	-
Prior year program recoveries	**231**	-
Interest earned during the period	**45**	205
Program expenditures	**(16,454)**	(26,531)
Dream Home China	**(1,228)**	(2,344)
Increase in capital assets net of amortization	**(328)**	(776)
Due to the Province end of the year	**1,016**	1,169

Increase in capital assets net of amortization represents capital assets acquired during the year ($785,912, 2004 $836,858) less amortization on assets purchased by the Company ($457,498, 2004 $60,606).

9) Deferred revenue

The company defers contributions received from the Province of British Columbia and recognizes revenue as expenses are incurred. The Deferred revenue account will increase by the purchase of assets and decrease by the amortization of those assets.

	2005	2004
Balance, beginning of the year	**3,120**	-
Dream Home China Project	**1,228**	2,344
Increase in capital assets net of amortization	**328**	776
Balance, end of the year	**4,676**	3,120

The Dream Home China Project expected completion date is December 31, 2005 at which time the prepaid lease will begin to be amortized over a 3 year period.

10) Share capital

The Company has authorized capital of 100 common shares without par value of which 10 shares are issued and outstanding. The Minister of Forests holds the shares issued as the designated representative of Her Majesty the Queen in right of the Province of British Columbia.

11) Contributed surplus

Contributed surplus represents the transfer of capital assets from the Province of British Columbia on the set up of the Company. This amount is being amortized each year equal to the amount of amortization taken on the capital assets.

	2005	2004
Balance, beginning of the year	**146**	236
Amortization during the year	**(90)**	(90)
Balance, end of the year	**56**	146

12) Commitments

The Company has commitments as follows:

	Operating	Capital
2006	**34**	5
2007	**-**	4
	34	9

13) Comparative Figures

Certain figures for 2004 have been reclassified to make their presentation identical to that adopted in 2005.

	Marketing	China operations	Dream Home China	BC Market Outreach Network	Product development	Administration	Amortization	2005 Total	2004 Total
Advertising								-	**261**
Amortization							547	**547**	**65**
Auditing	140				140			**280**	**569**
Conferences and Trade Shows	1,042			1,013				**2,055**	**885**
Development Costs								-	**261**
Extraordinary Items						421		**421**	-
Marketing								-	**72**
Office	141	80		166	125	51		**563**	**312**
Other	6				6			**12**	**2**
Professional Services						557		**557**	**1,155**
Publishing	70			197	70			**337**	**498**
Strategy & Research Studies	370		386		896			**1,652**	**1,718**
System Costs								-	**182**
Trade Missions	110				110			**220**	**599**
Transitions								-	**157**
Travel		87				59		**146**	**389**
Wages and Benefits	189	327		413	233	200		**1,362**	**1,525**
Websites	1				1			**2**	-
Program Costs	4,686	386	21	947	2,350			**8,390**	**17,881**
Total	**6,755**	**880**	**407**	**2,736**	**3,931**	**1,288**	**547**	**16,544**	**26,531**

	Current Year 12 months ended March 31, 2005	Current Year Original Budget	Prior Year 12 months ended March 31, 2004
Revenue			
Receipts - Province of BC	$ 16,454	$ 18,750	$ 26,531
Interest Income	-	-	-
Total Funding	$ 16,454	$ 18,750	$ 26,531
Expenditures			
International Marketing	6,755	7,120	6,391
Product Development	3,931	4,820	4,476
BC Market Outreach Network	2,736	2,842	2,774
China Operations	880	995	928
Dream Home China	407	2,036	-
Research	-	-	10,631
Administration	1,288	937	1,266
Amortization and Depreciation	547	-	155
Total Expenditures	$ 16,544	$ 18,750	$ 26,621
Excess of Revenue Over Expenditures	$ (90)	$ -	$ (90)
Transfer from Contributed surplus	90	-	90
Retained Earnings end of the year	$ -	$ -	$ -

1) FII's responsibility for the research program was terminated at the end of the previous fiscal year. Therefore no budget or expenditures were made in the 12 months ended March 31, 2005.

2) One time payments relating to executive restructuring and independent financial review were incurred in the current year ended March 31, 2005. These payments amounted to $421 thousand, are included in Administration costs and account for the current budget overrun in that category.

3) Payments of approximately $1.4 million for the construction costs and capital asset purchases for Dream Home China have been capitalized and will be written off over future accounting periods. This accounting treatment is why it appears that expenditures relating to Dream Home China have come significantly under budget.

4) Recipients of project funding in International Marketing and Product development have under spent their budgeted funding by approximately $340 thousand. Also some budget from these program areas was reallocated to cover the overrun anticipated

5) Amortization costs are offset by deferred income funded in previous years and as a result requires no budget allocation.

Canada Tsuga E 120	The brand name given to Canadian hemlock wood in Japan.
COFI	The Council of Forest Industries, a BC industry association representing BC forest companies.
CSA	Canadian Standards Association.
Dream Home Canada	The name given to FII's multi-year initiative to introduce wood-frame construction in Shanghai.
Dream Home China	The name given to the demonstration centre built and managed by FII in Shanghai.
FBM	Foot board measure – more commonly referred to as a board feet.
FII	Forestry Innovation Investment Ltd.
FOB	Free on board, a term used to indicate the total price of goods as well as the cost of loading them onto a vessel bound for a buyer.
FPAC	Forest Products Association of Canada, a national forest industry agency.
IBS	International Builders Show.
LEED	Leadership in Environmental and Energy Design.
SFI	Sustainable Forestry Initiative.
SPF Group	A group of companies manufacturing spruce, pine and fir wood products.
USGBC	United States Green Building Council, a nonprofit coalition of companies, nonprofit organizations and government agencies working to promote environmentally friendly building standards.

Contact us

For more information on Forestry Innovation Investment Ltd. and its programs, please contact us at:

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Forestry
Innovation
Investment Ltd.